

March 31, 2012, Issue 24

12222 Merit Drive, Suite 1660  
Dallas, TX 75251  
www.acig.com  
(972) 702-9004

# ACIG

## news

### “I Drove A Stake in the Ground”

Paul O’Neill, retired CEO of Alcoa Aluminum, is credited with orchestrating a major turnaround at the company. Prior to his tenure with Alcoa, he served in executive level positions with Morrison-Knudsen and International Paper Company. It was during this time he developed an understanding and appreciation for safety’s role in helping define a company’s culture.

In 1987, Alcoa Aluminum was a “Rust Belt Relic”. There was a rigid hierarchy, where outsiders were not welcome and safety was not a core value. That all changed when he was hired to be their new CEO. To make an immediate impact, he reviewed a variety of metrics and latched on to a singular standard. “I drove a stake in the ground; we would measure overall performance by a “Singular Standard – Time Lost to Employee Injuries”.

Managers and employees began to take ownership of safety in all operations of the company, from exploration and mining, to smelting operations and transportation of their finished goods to customers. Productivity improved dramatically and this had a very positive impact on Alcoa’s financial performance.

Today, Alcoa is recognized as an innovator and leader in industrial safety and health. Their Guiding Principle is “We value human life above all else and manage risk accordingly. ONE life lost is one too many.” This guiding principle is supported by their core values as listed on their website: “To work safely every day in our 180 locations, in a manner that protects our employees, contractors, customers and the communities where we operate”.

Safety is visible and communicated to interested parties in real time. As of Thursday, March 15, 2012, 14:00 Greenwich Mean Time (GMT), Alcoa’s lost workday (days away) rate for 2012 stands at 0.112. Alcoa calculates and publishes these rates in real time. Each represents the number of injuries and illness cases per 100 full-time workers.

In the 12-month period ending February 29, 2012:

**36.7%** of Alcoa’s 180 locations worldwide had zero recordable injuries; **50.6%** had zero days away, restricted or transferred; and **73.3%** had zero lost workdays.

**99.3%** of our employees had zero days away, restricted or transferred.

**99.9%** of our employees had zero lost work days.



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O'Neill retired as Chairman and CEO of Pittsburgh industrial giant Alcoa in 2000. During this thirteen year period, the company's revenue grew from \$1.5BB to \$23BB. Their safety record also improved dramatically and they are considered a world-class safety company.

## ACIG Financial Report December 31, 2011

### Balance Sheet Profile

ACIG reported total assets of \$345,492,000 as of December 31, 2011 versus the \$337,882,000 reported at December 31, 2010. ACIG's shareholders' equity was \$120,487,000 (versus \$119,442,000 at December 31, 2010). ACIG posted net unrealized gains on investments (net of tax) of \$9,370,000 at December 31, 2011, a decrease of \$3,786,000 from December 31, 2010. The unrealized gain (net of tax) on the bond portfolio increased by \$991,000 and the unrealized gain (net of tax) on the common stock portfolio decreased by \$4,777,000.

### Operating Results for the Year Ended December 31, 2011

ACIG reported pretax income of \$36,304,000 for the year ended December 31, 2011 before policyholder dividends and other return premiums of \$25,441,000 and related bonuses of \$4,454,000. ACIG accrued premium refunds of \$25,441,000 payable to the ACIG insureds pursuant to our capital management strategy versus budgeted transactions of \$24,381,000. ACIG reported net income of \$4,991,000 for the year ended December 31, 2011 versus budgeted net income of \$2,500,000.

## ACIG's Investment Portfolio

### Asset Allocation as of December 31, 2011

	Market Value as of 12/31/11	Percent of Total
<b>Insurance Reserves Portfolio</b>	<b>\$ 192,158,931</b>	<b>59.3%</b>
BlackRock	\$ 159,074,028	
State Deposits	\$ 33,084,903	
<b>Capital Portfolio</b>	<b>\$ 132,029,471</b>	<b>40.7%</b>
<b>Equities</b>		
Dodge & Cox (Global)	\$ 6,314,824	1.9%
Primecap	\$ 16,946,892	5.2%
Wellington Global Perspectives	\$ 10,426,783	3.2%
Calamos Global Growth & Income	\$ 8,785,626	2.7%
<b>Convertibles</b>		
Zazove	\$ 22,610,314	7.0%
Calamos Global Growth & Income	\$ 9,644,672	3.0%
<b>Fixed Income</b>		
Western-Absolute Return	\$ 14,325,165	4.4%
T. Rowe Price High Yield Fund	\$ 2,798,137	0.9%
Payden GNMA Fund	\$ 20,192,477	6.2%
Franklin Templeton Global Bonds	\$ 14,552,170	4.5%
<b>Real Assets</b>		
BlackRock TIPS	\$ 5,432,411	1.7%
<b>TOTAL INVESTMENTS</b>	<b>\$ 324,188,402</b>	<b>100%</b>
<b>Shareholders' Equity (as of 12/31/11)</b>	<b>\$ 120,486,858</b>	

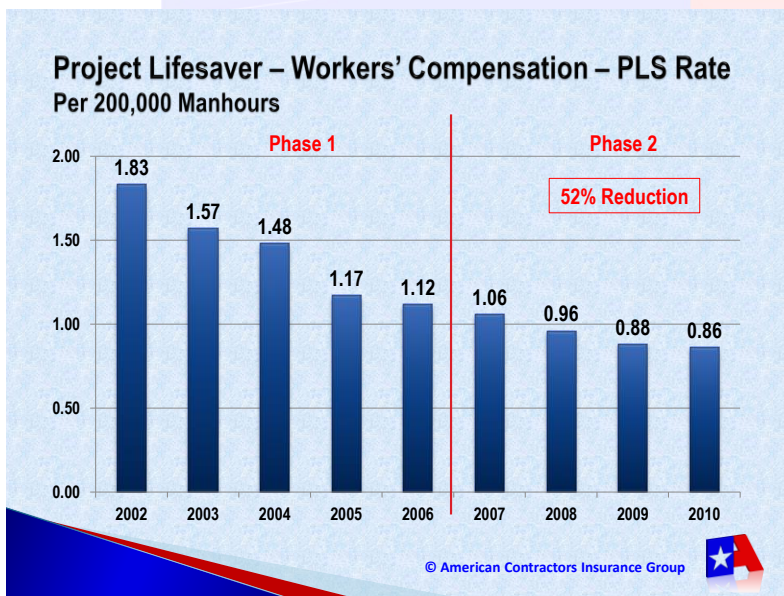
“\$324,188,402  
in total investments”

## Project Lifesaver Report

ACIG members continue to produce outstanding results in our Project Lifesaver Initiative. Over the eight (8) recent policy years, they have reduced their loss rates as follows:

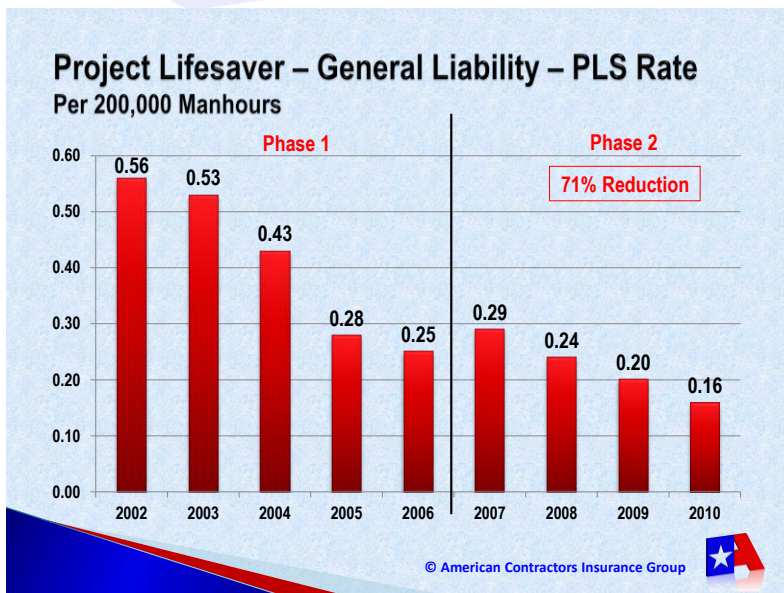
Workers Compensation	52% improvement
General Liability	71% improvement
Auto Liability	55% improvement

The accompanying charts chronicle the improvements over time. These results are a testament to our members' safety culture that permeates their operations. To achieve meaningful reductions, we need to remain vigilant and strive for Zero Accidents.



*“A 52% reduction in PLS Recordable Cases”*

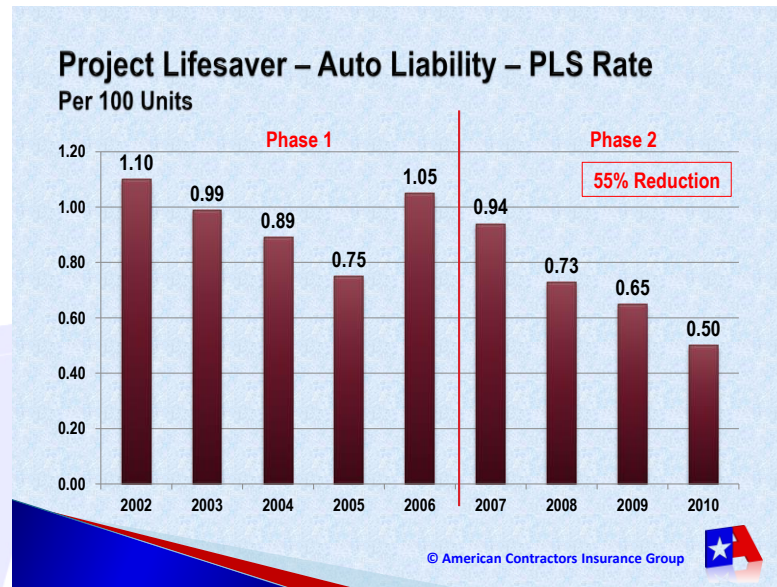
For the most recent reporting period, Kitchell Corporation had the lowest Workers Compensation PLS rate at 0.09 per 200,000 manhours.



*“General Liability loss rate has been reduced by 71%”*

Eleven (11) members recorded no qualifying General Liability claims over a 24-month period.

*“Auto Liability loss rate has been reduced by 55%”*



Three (3) members recorded no qualifying Auto Liability losses over a 24-month period.

## ACIG Best Practices Meeting

The 2012 Best Practices meeting was held on February 23, 2012, at the Four Seasons Resort Scottsdale. There were one hundred fifty-two (152) attendees for this year’s meeting.

Best Practices Steering Committee Chairman Don Greenland with Nabholz Construction Corporation made the welcome and introductory remarks. Mike O’Neill provided a brief presentation on the importance of utilizing best practices to drive positive results. Doug Erickson, President/COO of KS Industries, L.P., made the Keynote address. His informative presentation provided recent data from a Behavioral Science Technology, Inc. report on the precursors and leading indicators for serious injuries and fatalities. Doug spoke on one of their highest hazard activities, personnel and equipment transportation to their remote sites in North Dakota. Drawing from the military, they developed a “convoy protocol” that is used to safely move men and machinery.

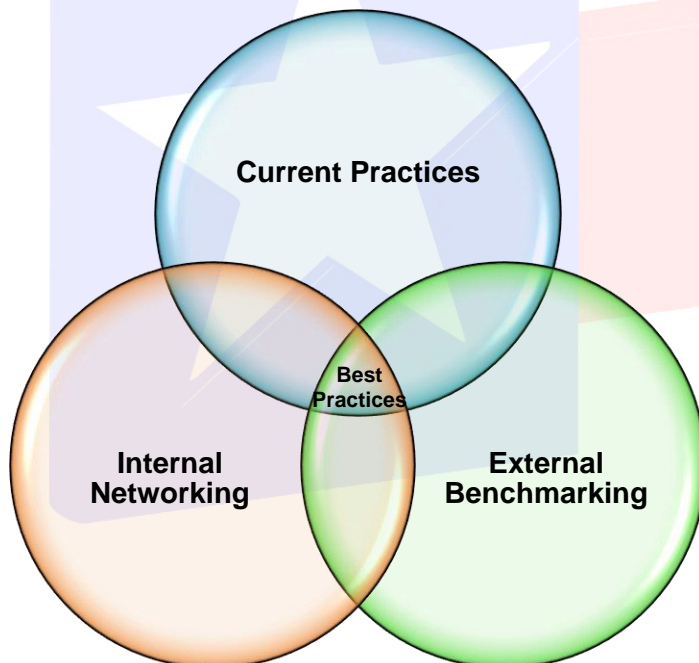
The Industry Group sessions were facilitated by our Steering Committee members and supported by ACIG staff. These group sessions provide an excellent opportunity to discuss mission critical topics and exposures within the group.

The afternoon Concurrent sessions were topic-specific and allowed a choice for the attendees. This year’s topics and presenters were:

- Contract Risks Beyond Indemnity and Insurance – Frank Keres, Construction Risk Associates
- Improving Performance by Engaging Employees – Dave Murphy, The Pepper Companies, Inc. and Rob Hunt, ACIG

- Incident Investigation Best Practices – John Willwerth, Charles Pankow Builders, Ltd. and Paul Flentge, The Pepper Companies, Inc.
- Marketing CCIPs for Owner Proposals – Dan Harmon, Hoffman Corporation
- Project Peer Review Process – Don Greenland, Nabholz Construction Corporation and Gordon Berch, Jaynes Corporation
- The Risks and Rewards of Social Media – Kevin Kohart, BMW Constructors, Inc.; Ed Jackson, G.A. & F.C. Wagman, Inc. and Nicole Maas, Kitchell Corporation
- Subcontractor Default – Dick Walterhouse, Charles Pankow Builders, Ltd.; Wayne Cabot, Forrester Construction Company and James Shay, ACIG

Best Practices are a means of supporting a culture of continuous improvement.



ACIG would like to thank our Best Practices Steering Committee and all of our presenters for their efforts in making the 2012 Best Practices meeting a success.

## AZ Program Report

ACIG and Zurich entered into a Strategic Alliance on June 1, 2005 to address some significant issues facing our general building contractors.

1. Subcontractor liability exclusions, limitations and related claims disputes.

2. States that did not allow any meaningful risk transfers due to anti-indemnity and insurance regulations.
3. Low limits of insurance maintained by first and second tier subcontractors.

All of these issues are still present in the current insurance market.

The AZ Program provides a seamless program insuring core program projects, project specific CCIPs and rolling CCIPs for smaller projects. All of the insurers and limits are identical under all three (3) aspects of the AZ Program.

As of December 31, 2011, our six (6) AZ members have produced the following premiums.

Workers Compensation	\$ 31,555,796
Primary Liability	\$ 86,943,507
Umbrella/Excess Liability	<u>\$ 50,004,684</u>
Total	<u>\$168,503,987</u>

Included in this total is the premiums generated on 595 CCIPs, with construction values exceeding \$7.66BB.

The initial underwriting results and economic benefits are very positive; however, this book of business has a long tail and the overall results will not be known for several years.

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*“AZ Premiums of  
\$168,503,987”*

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The AZ Steering Committee meeting was held on March 21, 2012. We also presented the AZ Alliance Report to Zurich.

## **AZ Program Data Illuminates Project Risks**

For the past five years, the AZ Team within ACIG has been collecting project data from completed CCIPs in an effort to identify leading indicators which may signal project claims and/or completed operations/construction defect claims. Having collected, on 291 projects, 34 data points of “risk” influenced by the Owner, Subcontractors, the GC itself, as well as others, some surprising trends surfaced. The Top Ten results are as follows:

1. Owner design delaying project;
2. Owner payments late, impacting the project and/or subcontractors’ performance;
3. Owner financing delaying project;
4. GC changes in senior project leadership;
5. Needlessly excessive Punchlist issues, or Punchlist work arbitrarily rejected;
6. Delayed processing of change-orders and RFI’s impacting the project;
7. Unresolved change order disputes;
8. Final payment aggressively disputed;
9. Subcontractor delay in beginning or continuing job; and
10. Owner furniture, fixtures and equipment delayed impacting the project.

It may be easy to blame the “less sophisticated” subcontractors for many project ills, but this data (however limited it may be) shines an uncomfortable light on the relationship between the General Builder and Owner. Perhaps more strategic focus should be aimed at contract language, matching project leadership with Owners and Owners’ representatives, active use of lean principles and collaborative project delivery. The good news is that these risk factors were not present on all projects.

## ACIG Member Unique Project

### Forrester Construction Company – Robinson Nature Center

The Robinson Nature Center is a new 25,000 SF, LEED Platinum modern nature center with customary indoor exhibits and displays, along with outdoor interpretive trails. Located in Columbia, MD, the three-story center is nestled into a hillside and was designed from the very beginning with energy conservation and sustainability in mind. As a result, it is on track to becoming one of only three LEED Certified Platinum buildings in the State of Maryland. LEED Platinum Certification is the most difficult and highest designation given by the U.S. Green Building Council (USGBC).

The new Robinson Nature Center serves as a model of green construction. Construction included the newest proven technologies designed to maximize energy conservation and the use of renewable resources. The building is equipped with loads of environmental features including a green roof, underground geothermal heating/cooling systems, permeable paving on the parking lot for site stormwater management, solar panels which will generate 15% of electric needs, innovative water conservation methods, and a host of other green features.



The main objective of the Robinson Nature Center is to bring people together with nature, to learn, to experience nature and the environment around them, and to promote an ethic of stewardship of the land. To that end, the Robinson Nature Center will provide the community with interesting and exciting educational programs.

In addition to a main exhibit room with many interactive and multisensory exhibits for all ages, the Center has a large Discovery Room specifically designed for children's activities with many hands-on exhibits and activities to capture the attention of children and educate them about their natural environment. The facility also includes an auditorium with seating for 150 people; classrooms/meeting rooms; a 50-seat NatureSphere, which is a state-of-the-art digital domed nature planetarium; and a balcony and green rooftop for outdoor nature viewing.

Construction also included a new entrance road, a pervious concrete pavement parking lot for 178 vehicles, and outdoor nature trails. The trails will be used for outdoor education and interpretation of the historic Simpsonville Mill and Middle Patuxent River. Among the center's outdoor features are a butterfly garden, a rain garden, an amphitheater, and a display giving visitors a sense of practical backyard landscaping that attracts wildlife.

## ACIG Notes and Notables

Mike O'Neill made a presentation at the 40<sup>th</sup> Annual Captive Insurance Companies Association's (CICA's) Annual Symposium, "Utilizing Best Practices to Drive Positive Results".



## ACIG Contractors in the News

**Cajun Constructors, Inc.**, a subsidiary of Cajun Industries, LLC, was honored with a 2012 Alliant Build America Award from the Associated General Contractors of America, billed as the "Oscars of the Construction Industry". The award recognizes the nation's most significant construction projects. The United States Army Corps of Engineers (USACE) project in Saint Bernard Parish involved construction of more than 43,000 linear feet of floodwalls, installation of six steel gates, relocation of 12 utility crossings and modification of an existing pump station. Despite a five-month delay, Cajun Constructors met their deadline by compressing an 11-month schedule into seven months. Cajun took special steps to make its goal of zero crane incidents a reality. Cajun worked over 1,500,000 manhours with ZERO lost time accidents on this award-winning project. Congratulations to Cajun Constructors on receiving this prestigious award.

**Jaynes Corporation** has been recognized by the AGC - New Mexico Building Branch as the Industry Choice Winner for Outstanding General Contractor for 2012. Selection criteria for this award was: Pursuit of Best Practices in 1) approach to conducting business; 2) dealings with customers, clients, employees, and peers; and 3) quality performance with respect to products and/or services.

Frito Lay's Oahu Distribution Center in Waipahu, Hawaii received a LEED GOLD certification. This is the first LEED Gold industrial project on the islands. **The Haskell Company** was the design-builder for this new facility. Haskell's integrated design-build approach ensured that Frito-Lay received a quality facility, which was safely delivered on time and met the stringent requirements of the USGBC GOLD Certification.



**Shimmick Construction Co., Inc.'s** Big Tujunga Dam Seismic Rehabilitation and Spillway Modification project was recognized at ENR's Best Projects 2011 awards breakfast in San Francisco. Projects ranging from Hawaii, Alaska, Washington, Oregon, and California were judged by a panel of peers and SCCI's project was recognized as the Best Civil Works/Infrastructure Project for 2011.

**G.A. & F.C. Wagman, Inc.** announced the acquisition of the Earth Support Division (ESD) of GeoConstructors, Inc. (GCI), a Virginia corporation headquartered in Purcellville, VA. The Earth Support Division was established when GeoConstructors, Inc. purchased Terratech of Virginia, LLC in 2007.

The Earth Support Division provides a wide range of geotechnical design and construction services including temporary and permanent wall-systems as well as tiebacks, tie downs, soil nails, rock anchors, micropiles (which include hollow bar micropiles, pin piles and helical anchors). These ground anchor systems are available to customers in the commercial, industrial and transportation markets. The Earth Support Division is currently involved in design-build projects in Pennsylvania, Maryland, Delaware, DC, Virginia, West Virginia and North Carolina.

## Enterprise Risk Management

The Top 5 Risks on the minds of business leaders today aren't exactly solved by purchasing insurance, according to the 2011 Lloyd's Risk Index. The survey of over 500 senior executives produced the following Top 5 Listing:

1. Loss of customers and orders.
2. Talent and skill shortages.
3. Reputational risk – impossible to insure. It can take years to build your brand, and minutes to destroy it.
4. Currency regulations.
5. Increased legislative and regulatory burden.

## ACIG Meetings and Workshops

Meeting	Location	Dates
Vail Contractors Forum	Vail, CO	March 15-17, 2012
ACIG/Zurich Alliance Meeting	Chicago, IL	March 21, 2012
Safety/Claims Workshop	Charlotte, NC	April 10-12, 2012
Safety/Claims Workshop	San Antonio, TX	September 11-13, 2012
In-House Legal Counsel Forum	Dallas, TX	October 9-10, 2012*
Risk Management Workshop	Santa Barbara, CA	October 25-26, 2012
Quality Peer Groups I through VI	Various	Throughout the Year

\*Dates are still tentative at this time.

## Concluding Thoughts

Charles Pankow Builders, Ltd. joined ACIG in 2002. Rik Kunnath is the CEO and President of the Charles Pankow Foundation (CPF). The Charles Pankow Foundation (CPF) was established in 2002 to improve quality, efficiency and value by advancing innovation in building design and construction. It was Charlie's lifelong passion to inspire new and better ways to build.

One research focus is project teams. The goal is to improve performance of building design and construction teams by advancing integration, collaboration, communication and efficiency through new tools and technologies and by advancing new means and methods for project team practices. To that end, the Charles Pankow Foundation in conjunction with the Design Build Institute of America has recently published, "Design Management Guide" to achieve project success on Design-Build Projects. It is available on the DBIA website:

[www.dbiabooks.com/shopexd.asp?id=8395](http://www.dbiabooks.com/shopexd.asp?id=8395).

All the best,

A handwritten signature in black ink, appearing to read "Rik Kunnath", is written over a white rectangular background.

President & CEO